GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

# Global Markets Monitor

**FRIDAY, JUNE 16, 2023**

- **Markets see higher terminal rate after hawkish ECB meeting** (link)
- **Bank of Japan keeps monetary policy unchanged as expected** (link)
- **Bank of England expected to hike bank rate by 25 bps next week** (link)
- **Policy rate expected to increase sharply in Türkiye next week** (link)
- **Markets expect additional stimulus measures in China** (link)
- **Equity offerings have accelerated incrementally but remain below average in the US** (link)
- **Colombian peso is best performing EM currency year to date** (link)

Mature Markets | Emerging Markets | Market Tables

## Risk Appetite is up after Major Central Banks Decisions

**Markets are showing increasing risk appetite, with equity markets up and limited bond yield moves after the three major advanced markets central banks broadly matched expectations in their respective meetings this week.** After the Fed held rates on Wednesday and the ECB hiked 25 bps yesterday, the Bank of Japan left monetary policy unchanged this morning, as expected**.** Central bank decisions remain very much the focus of global markets next week, with three advanced markets central bank meetings in the UK, Norway and Switzerland – all expected to hike 25 bps to 4.75%, 3.5% and 1.75% respectively, and nine emerging markets central banks decisions, with eight expected to keep rates unchanged (Brazil, Chile, Czech Republic, Egypt, Hungary, Indonesia, Mexico and the Philippines), while markets expect the Central Bank of Türkiye to hike rates very sharply to 20% from the current 8.5%.

**Key Global Financial Indicators**

| Last updated: 6/16/23 1:07 PM | Level Last 12m | Level Latest | Change from Market Close 1 Day | 7 Days | 30 Days | 12 M | YTD | Since 23-Feb-22 |
|---|---|---|---|---|---|---|---|---|
| **Equities** | | | | | % | | % | |
| S&P 500 | | 4426 | 1.2 | 3 | 8 | 21 | 15 | 5 |
| Eurostoxx 50 | | 4394 | 0.7 | 2 | 2 | 28 | 16 | 11 |
| Nikkei 225 | | 33706 | 0.7 | 4 | 9 | 30 | 29 | 27 |
| MSCI EM | | 41 | 0.9 | 3 | 5 | 4 | 8 | -14 |
| **Yields and Spreads** | | | | | bps | | | |
| US 10y Yield | | 3.73 | 1.8 | -1 | 20 | 54 | -14 | 174 |
| Germany 10y Yield | | 2.48 | -2.6 | 10 | 13 | 76 | -9 | 225 |
| EMBIG Sovereign Spread | | 450 | 6 | -11 | -41 | -38 | -2 | 37 |
| **FX / Commodities / Volatility** | | | | | % | | | |
| EM FX vs. USD, (+) = appreciation | | 50.0 | 0.1 | 0 | -1 | -3 | 0 | -6 |
| Dollar index, (+) = $ appreciation | | 102.1 | 0.0 | -1 | 0 | -1 | -1 | 6 |
| Brent Crude Oil ($/barrel) | | 75.8 | 0.1 | 1 | 1 | -37 | -12 | -22 |
| VIX Index (%, change in pp) | | 14.4 | -0.1 | 1 | -4 | -19 | -7 | -17 |

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

## Mature Markets

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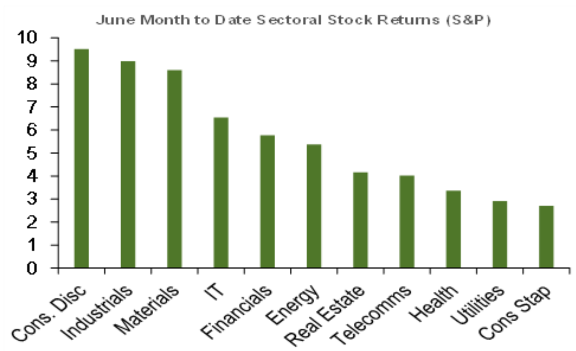
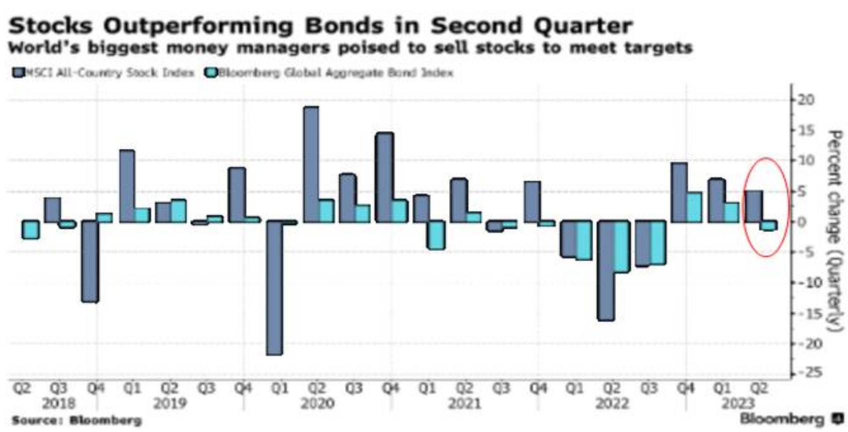
### United States

**US equity markets rallied 1.2% yesterday, with the S&P500 now nearly 4% above the levels seen when the Fed began its hiking cycle. Treasury yields slumped 5-7 bps lower, while the dollar index dropped 0.8% on euro strength following yesterday's ECB meeting.** While large tech firms have dominated gains YTD (and in market capitalization), the move in stocks has been more broad based in recent weeks.

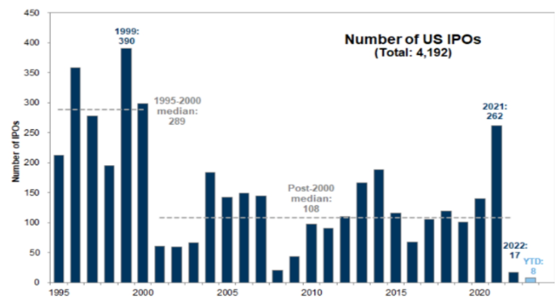



**Analysts believe portfolio rebalancing at quarter end could weigh on the recent stock rally**, with JPM analysts expecting up to a 5% correction given the sharp outperformance of stocks over bonds, as pension funds work to meet their allocation targets. Based on the AUM of major real money investors: US defined benefit pensions, Norges Bank, Japanese Pension Investment Fund, and balanced mutual funds, JPM estimates about $150 bn in net selling of stocks into quarter end could occur based on past behavior.



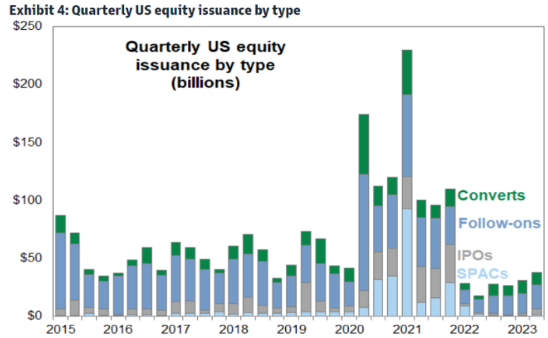

**Equity offerings have accelerated incrementally but remain below average, even when excluding the 2020–2021 boom period.** In the second quarter, increased volume has come on the back of stronger follow on offerings, which have increased 23% quarter on quarter to $23 bn. Initial public offerings continue to be weak, while, the special purpose acquisition company (SPAC) market has disappeared since early 2022 after driving record volumes in 2021. Excluding SPACs and spinoff deals, there have been only 8 IPOs YTD (worth $2.8 bn) compared to 17 in all of 2022 and a post 2000 median of 108.

Exhibit 3: IPO activity has remained relatively muted YTD
as of June 13, 2023; excludes SPACs, spin-offs and deals with <$25mn of gross proceeds




Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 4: Quarterly US equity issuance by type

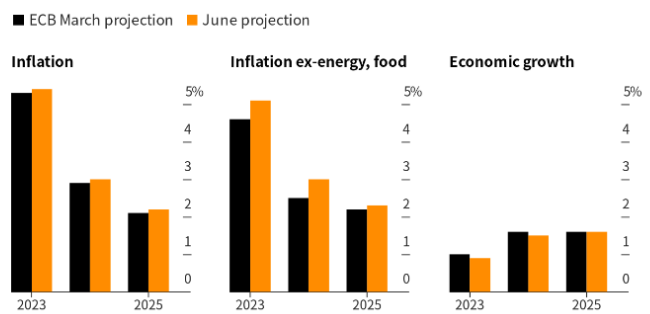



Source: Dealogic, Goldman Sachs Global Investment Research

**Euro Area**

**European equities were trading in the green (Stoxx 600 +0.4%) with gains broad based across sectors. The euro was little changed against the dollar at 1.09/$, after closing stronger yesterday following the ECB policy meeting and weaker US data.** Core sovereign bond yields were lower this morning (10y bund -3bps to 2.47%), but remain higher than at the start of the week. Over the week 10y bund yields have increased by roughly 10bps while 2y bond yields are roughly 19bps higher. On the data front, the final euro area inflation print for May was in line with previous estimates, while Italy's final print was marginally lower (+8.0%y/y vs previous estimate of 8.1%). **Separately, voluntary TLTRO repayments at the end of June will amount to €29.5bn**, according to the ECB**.**

ECB Raises Inflation Forecasts



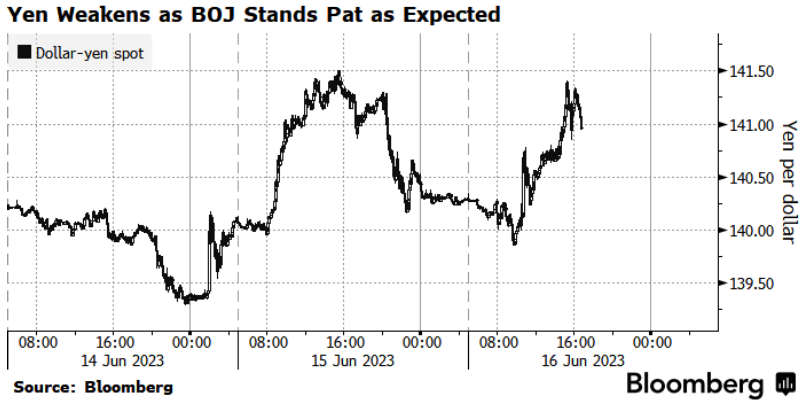

Source: ECB
Bloomberg

**Several analysts now expect two additional 25bps ECB hikes to take the deposit rate to 4%, but not all analysts agree.** The ECB yesterday increased its three key rates by 25bps to take the deposit rate to 3.5%, as expected. Contacts were surprised by the hawkish forecasts that accompanied the hike, in particular the higher and more persistent core inflation forecasts showing that core inflation is expected to remain above the ECB target even in 2025. Moreover, in the press conference President Lagarde also said that the General Council (GC) would 'very likely' increase the deposit rate in July. Against this backdrop several analysts have revised their terminal rate forecasts higher to 4%, but others have maintained their terminal rate forecasts at 3.75%. This morning hawkish ECB commentary continued, with some GC members noting that tightening might have to continue after September. **Markets are now fully pricing another 25bps hike for the ECB's upcoming meeting in July, in addition to seeing higher odds for another 25bps at the ECB meeting in September.**

**Japan**

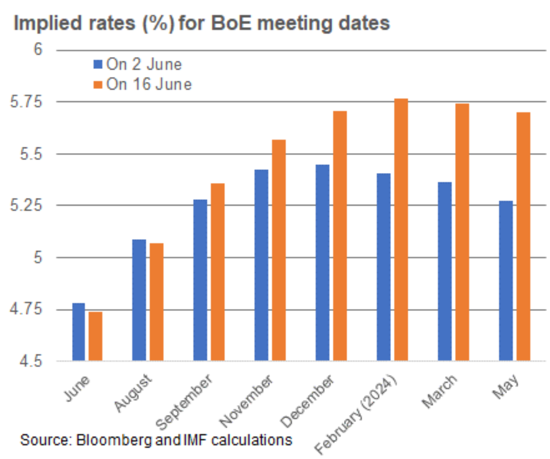
**The Japanese yen depreciated 0.5%, touching 140.9 yen per dollar, as the Bank of Japan (BOJ) kept monetary policy unchanged as expected.** At today's meeting, the negative policy balance rate at -0.1% was maintained, and the yield curve control remained unchanged. The BOJ also indicated that inflation expectations have remained unchanged while reaffirming its readiness to further ease monetary policy if necessary. The policy decision reflected Governor Ueda's view that the cost of prematurely tightening policy could affect Japan's nascent inflation trend after years of ultra-accommodative monetary policy. At the press briefing, Governor Ueda said that sustainable inflation will still take time to achieve while noting that a significant shift in the inflation outlook could lead to a policy change. Long-end JGB yields edged down (10-

year: -1.7 bps; 30-year: -0.4 bp), with 10-year yield at 0.404%. Japanese equities gained (NIKKEI: +0.7%) as the NIKKEI index enjoyed the 10th straight week gain in its longest streak since 2013.




**United Kingdom**

**Markets have fully priced in a 25bps rate increase for the BoE meeting next week, in line with analyst expectations, while terminal rate expectations differ.** Ahead of the BoE monetary policy meeting next Thursday, markets are focused on the May inflation print, due on Wednesday, where consensus sees headline inflation easing to 8.4% y/y (from 8.7%) and core inflation easing to 6.7%y/y (from 6.8%). After recent inflation and pay data surprised on the upside – markets have priced in more BoE tightening with roughly five additional 25bps hikes priced in to take the terminal rate to around 5.75%. There has also been some speculation that the BoE could hike by 50bps next week, but several analysts argue that the bar for such a move would be very high, even if the inflation numbers next week surprise on the upside, as there would be no new BoE forecasts at this meeting. Analysts mostly expect a lower BoE terminal rate than what the market is pricing – for example Morgan Stanley expect the peak rate at 5%, while Deutsche Bank expect two further rate hikes to take the bank rate to 5.25% in September, and Barclays see the bank rate at 5.5% by November. On the data front, the BoE/Ipsos Inflation Attitudes Survey for May 2023 was released this morning and showed that **median expectations of the inflation rate in the coming year had eased to 3.5%**, from 3.9% expected in February.




## Emerging Markets

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**Asian equities generally gained (+ 1.0%), led by Hong Kong (+1.1%) and Chinese equities (CSI 300: +1.0%).** Meanwhile, equities declined in Indonesia (-0.5%) and Thailand (-0.5%). Thai equities continued underperforming regional peers due to lingering political uncertainty after the general election. **Most Asian**

**currencies appreciated,** led by the Korean won (+0.6%), Thai baht (+0.5%) and Indian rupee (+0.4%). **Long-end government bond yields were mixed,** with 10-year yields falling in Singapore (-2.7 bps) while rising in India (+1.4 bps).

**In EMEA, equity markets were mostly trading higher, while currencies were mixed against the dollar.** Equities in Poland were outperforming (+1.1%) while stocks slumped in Serbia (-2.6%). The South African rand continued to appreciate against the dollar (+0.3% to 18.17/$) while the Nigerian Naira was trading weaker (-0.4% to 613.6/$). CEE currencies little changed against the euro. Local currency bond yields were mostly edging higher.

**In Latin America, most currencies appreciated**, with the Chilean peso strengthening the most (+0.9%), and the Colombian peso and Peruvian sol also gaining (+0.5% and 0.4% respectively). Local bond yields rose about 10bps in Brazil, after. Chilean and Mexican equity markets outperformed regional peers (+0.4% and 0.3% respectively).

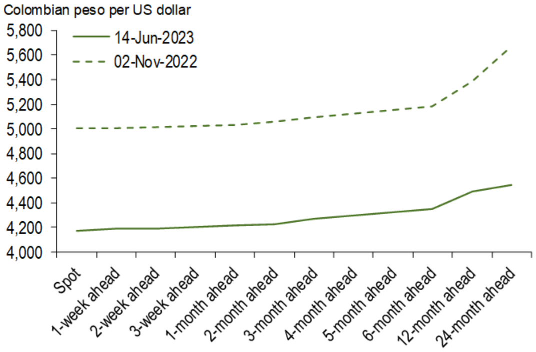
### China

**Chinese equities gained (CSI 300: +1.0%; Hong Kong SAR-listed: +0.9%) on expectations that Beijing will soon provide additional policy support despite concerns related to geopolitical tensions.** Additional stimulus seemed forthcoming as the National Development and Reform Commission said at a monthly briefing that China will speed up work to draft and roll out measures to boost consumption; other government agencies also mentioned that they are working on additional policy support earlier this week. Geopolitical tensions between China and Europe increased however, as the European Commission is increasing the pressure on member states to stop using Chinese equipment in critical infrastructure by explicitly labeling Huawei and ZTE Corp as high-risk vendors for the first time. Meanwhile, President Xi told Bill Gates during the latter's visit to Beijing that China is willing to work with the world on technology innovation and global challenges including pandemic prevention. RMB appreciated (+0.1%). CGB yields increased (1-year: +1.1 bps; 10-year: +0.4 bp).

### Colombia

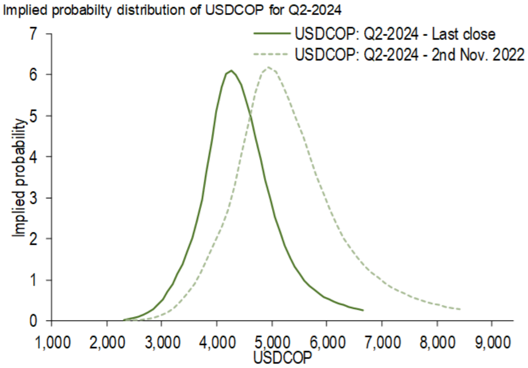
**The Colombian peso is the best performing emerging markets currency year to date** (+15.3%). The peso weakened more than 30% last year, in part due to policy uncertainty following the elections and an unfavorable global context. The appreciation of the peso has picked up pace in recent weeks following reports about increased political barriers against looser fiscal policy. Currency forwards have shifted lower and market expectations of depreciation by the second quarter of 2024 have reduced significantly (the option-implied probability distribution of the peso for Q2 2024 trimmed its right tail). The central bank's restrictive monetary policy has also paved the way for the peso to benefit from carry trades.

**USDCOP FX forwards shift down as China re-opens and policy uncertainty eases**
Colombian peso per US dollar




Source: Bloomberg

**Option-implied probability distribution narrows as it trims its right tail**
Implied probabilty distribution of USDCOP for Q2-2024

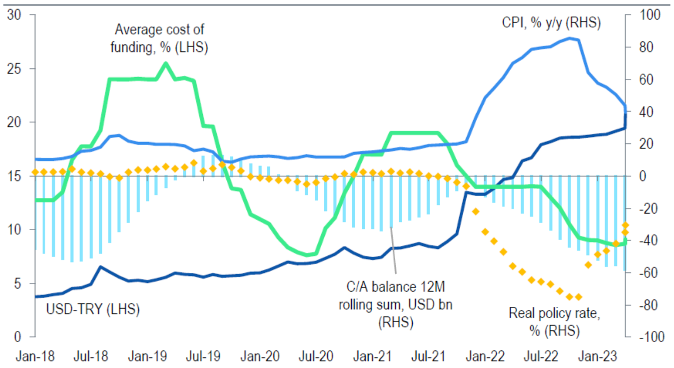



Source: Bloomberg

## Türkiye

**Analysts expect the Central Bank of the Republic of Türkiye to tighten monetary policy next week, but views diverge on the size of the hike.** While Bloomberg consensus sees the central bank hiking the one-week repo rate from 8.5% to 20%, Standard Chartered analysts for example expect a 550bps hike in the weekly repo rate but also see the possibility of larger or smaller hike. Standard Chartered analysts argue that the central bank is likely to take a gradual move away from the current highly accommodative monetary policy stance towards a more neutral or even hawkish stance, to address persistently high inflation, a widening current account deficit and the renewed lira weakness. Contacts are also focused on possible announcements of a new economic plan. **The Turkish lira has continued to depreciate and is now roughly 1% weaker than at the start of the week and 12% weaker than at the start of the month.**

Figure 1: CBRT likely to pivot with a big rate hike to shift focus to stabilisation




Source: Bloomberg, Standard Chartered Research

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## Global Financial Indicators

| | Level | | Change | | | | |
|---|---|---|---|---|---|---|---|
| **6/16/23 1:07 PM** | **Last 12m** | **Latest** | **1 Day** | **7 Days** | **30 Days** | **12 M** | **YTD** |
| **Equities** | | | | | % | | % |
| United States | | 4430 | 1.2 | 3 | 8 | 21 | 15 |
| Europe | | 4394 | 0.7 | 2 | 2 | 28 | 16 |
| Japan | | 33706 | 0.7 | 4 | 9 | 30 | 29 |
| China | | 3963 | 1.0 | 3 | 0 | -8 | 2 |
| Asia Ex Japan | | 69 | 0.8 | 3 | 5 | 2 | 7 |
| Emerging Markets | | 41 | 0.9 | 3 | 5 | 4 | 8 |
| **Interest Rates** | | | | | basis points | | |
| US 10y Yield | | 3.73 | 1.8 | -1 | 20 | 54 | -14 |
| Germany 10y Yield | | 2.48 | -2.6 | 10 | 13 | 76 | -9 |
| Japan 10y Yield | | 0.41 | -1.7 | -2 | 2 | 15 | -1 |
| UK 10y Yield | | 4.39 | 0.3 | 15 | 57 | 187 | 72 |
| **Credit Spreads** | | | | | basis points | | |
| US Investment Grade | | 157 | -0.3 | -6 | -17 | -11 | -1 |
| US High Yield | | 447 | -4.0 | -15 | -66 | -80 | -33 |
| **Exchange Rates** | | | | | % | | |
| USD/Majors | | 102.08 | 0.0 | -1 | 0 | -1 | -1 |
| EUR/USD | | 1.10 | 0.1 | 2 | 1 | 4 | 2 |
| USD/JPY | | 141.0 | 0.5 | 1 | 3 | 7 | 8 |
| EM/USD | | 50.0 | 0.1 | 0 | -1 | -3 | 0 |
| **Commodities** | | | | | % | | |
| Brent Crude Oil ($/barrel) | | 75.8 | 0.1 | 1 | 1 | -24 | -9 |
| Industrials Metals (index) | | 149 | 0.4 | 3 | 4 | -12 | -10 |
| Agriculture (index) | | 70 | 1.3 | 5 | 6 | -7 | 2 |
| **Implied Volatility** | | | | | % | | |
| VIX Index (%, change in pp) | | 14.4 | -0.1 | 0.6 | -3.6 | -18.6 | -7.3 |
| US 10y Swaption Volatility | | 98.0 | 0.0 | -5.2 | -19.8 | -34.2 | -27.7 |
| Global FX Volatility | | 7.9 | 0.0 | -0.1 | -0.7 | -3.8 | -2.8 |
| **EA Sovereign Spreads** | | | | | 10-Year spread vs. Germany (bps) | | |
| Greece | | 132 | -4.1 | 3 | -39 | -124 | -74 |
| Italy | | 158 | -4.2 | -15 | -28 | -45 | -56 |
| Portugal | | 64 | -2.5 | -8 | -17 | -49 | -38 |
| Spain | | 92 | -2.0 | -6 | -14 | -25 | -17 |

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

# Emerging Market Financial Indicators

| Last updated: 6/16/2023 1:08 PM | Exchange Rates | | | | | | | Local Currency Bond Yields (GBI EM) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Level | | Change (in %) | | | | | Level | | Change (in basis points) | | | | |
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | YTD | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | YTD |
| | | vs. USD | (+) = EM appreciation | | | | | | % p.a. | | | | | |
| China | | 7.12 | 0.0 | 0.1 | -2 | -6 | -3 | | 2.8 | 6.6 | -1 | -8 | -9 | -28 |
| Indonesia | | 14935 | 0.1 | -0.6 | -1 | -1 | 4 | | 6.3 | 0.3 | -4 | -13 | -110 | -64 |
| India | | 82 | 0.3 | 0.6 | 0 | -5 | 1 | | 7.4 | -1.1 | 2 | 30 | (45.4) | -1 |
| Philippines | | 56 | 0.1 | 0.3 | 0 | -4 | 0 | | 5.9 | 0.0 | 0 | 6 | 26 | -9 |
| Thailand | | 35 | 0.4 | -0.2 | -2 | 1 | 0 | | 2.8 | 2.0 | 11 | 14 | -31 | 17 |
| Malaysia | | 4.62 | 0.2 | 0.0 | -3 | -5 | -5 | | 3.7 | -1.2 | 0 | 7 | -62 | -31 |
| Argentina | | 248 | -0.2 | -1.6 | -7 | -51 | -29 | | 111.6 | 115.1 | 114 | 1212 | 5053 | 2343 |
| Brazil | | 4.81 | 0.0 | 1.4 | 3 | 5 | 10 | | 11.4 | 13.1 | 11 | -47 | -148 | -118 |
| Chile | | 794 | 0.9 | -0.8 | -1 | 8 | 7 | | 5.0 | 0.0 | 1 | -30 | -144 | -33 |
| Colombia | | 4153 | 0.5 | 0.4 | 8 | -6 | 17 | | 8.0 | 0.0 | -8 | -51 | -100 | -178 |
| Mexico | | 17.12 | 0.0 | 0.9 | 2 | 19 | 14 | | 8.3 | -3.5 | -6 | 4 | -88 | -45 |
| Peru | | 3.6 | 0.4 | 0.2 | 1 | 2 | 4 | | 7.1 | 0.4 | -15 | -13 | -84 | -86 |
| Uruguay | | 38 | 0.4 | 1.9 | 2 | 5 | 5 | | 9.9 | 0.0 | 0 | -10 | -105 | -79 |
| Hungary | | 341 | 0.2 | 0.6 | 0 | 11 | 10 | | 7.6 | 9.0 | 19 | -10 | -57 | -197 |
| Poland | | 4.08 | -0.4 | 1.2 | 1 | 10 | 7 | | 5.3 | 1.8 | 12 | -6 | -213 | -85 |
| Romania | | 4.5 | 0.1 | 1.9 | 1 | 4 | 2 | | 6.6 | 0.4 | -10 | -28 | -238 | -111 |
| Russia | | 83.7 | -0.3 | -1.3 | -4 | -32 | -11 | | | | | | | |
| South Africa | | 18.2 | 0.4 | 3.3 | 5 | -12 | -6 | | 9.9 | 7.6 | -9 | 15 | 99 | 70 |
| Turkey | | 23.66 | 0.0 | -1.0 | -17 | -27 | -21 | | 17.5 | 1.0 | 204 | 768 | -207 | 770 |
| US (DXY; 5y UST) | | 102 | 0.0 | -1.4 | 0 | -1 | -1 | | 3.95 | 3.8 | 3 | 42 | 66 | -6 |

| | Equity Markets | | | | | | | Bond Spreads on USD Debt (EMBIG) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Level | | Change (in %) | | | | | Level | | Change (in basis points) | | | |
| | Last 12m | Latest | 1 Day | 7 Days | 30 Days | 12 M | YTD | Last 12m | Latest | 7 Days | 30 Days | 12 M | YTD |
| | | | | | | | | basis points | | | | | |
| China | | 3963 | 1.0 | 3 | 0 | -8 | 2 | | 187 | -2 | -14 | -4 | 10 |
| Indonesia | | 6699 | -0.2 | 0 | 0 | -3 | -2 | | 147 | -3 | 1 | -49 | 7 |
| India | | 63385 | 0.7 | 1 | 3 | 23 | 4 | | 132 | -7 | -30 | -42 | -10 |
| Philippines | | 6508 | 0.7 | 0 | -2 | 3 | -1 | | 119 | -4 | -1 | -18 | 22 |
| Thailand | | 1559 | 0.1 | 0 | 3 | 0 | -7 | | 0 | 0 | 0 | 0 | 0 |
| Malaysia | | 1389 | 0.5 | 1 | -3 | -5 | -7 | | 93 | -2 | -10 | -32 | -7 |
| Argentina | | 391831 | 3.5 | 3 | 23 | 350 | 94 | | 2374 | -22 | -217 | 259 | 169 |
| Brazil | | 119221 | 0.1 | 3 | 10 | 16 | 9 | | 252 | -5 | -24 | -81 | -22 |
| Chile | | 5742 | 0.4 | 1 | 2 | 14 | 9 | | 131 | -3 | -4 | -37 | -1 |
| Colombia | | 1179 | 0.0 | -1 | 4 | -20 | -8 | | 364 | -8 | -59 | -15 | -8 |
| Mexico | | 55344 | 0.4 | 2 | 0 | 16 | 14 | | 386 | -11 | -24 | -34 | 5 |
| Peru | | 22445 | 0.3 | 1 | 3 | 16 | 5 | | 170 | -5 | -12 | -24 | -10 |
| Hungary | | 50098 | -0.3 | 2 | 9 | 28 | 14 | | 228 | -7 | 7 | -4 | 6 |
| Poland | | 67746 | 0.3 | 2 | 6 | 27 | 18 | | 141 | -2 | 4 | 49 | 68 |
| Romania | | 12135 | 0.7 | -1 | 0 | 1 | 4 | | 242 | -7 | -10 | -53 | -13 |
| South Africa | | 78532 | 0.0 | 2 | 1 | 16 | 8 | | 404 | -19 | -47 | -41 | 37 |
| Turkey | | 5511 | 0.3 | -2 | 20 | 122 | 0 | | 472 | -39 | -114 | -189 | 32 |
| Ukraine | | 507 | 0.0 | 0 | 0 | -2 | -2 | | 4927 | -127 | -477 | 1221 | 848 |
| EM total | | 41 | 0.5 | 3 | 5 | 4 | 8 | | 394 | -9 | -35 | -25 | 18 |

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

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